



September 20, 2021

Mr. John Moriarty  
Associate Chief Counsel  
Income Tax & Accounting  
Internal Revenue Service  
1111 Constitution Avenue, NW  
Washington, DC 20224

Re: Reporting of Depreciation-Related Section 481(a) Adjustments by Controlled Foreign Corporations

Dear Mr. Moriarty:

The American Institute of CPAs (AICPA) appreciates the guidance released under [Rev. Proc. 2021-26](#)<sup>1</sup>, on May 11, 2021, that provides procedures for certain foreign corporations to obtain automatic consent to change their methods of accounting for depreciation to the alternative depreciation system (ADS) under section 168(g).<sup>2</sup> However, the AICPA recommends the issuance of a modification to Rev. Proc. 2021-26 as soon as possible to accommodate quickly approaching tax return filing deadlines.<sup>3</sup>

### Overview

Section 951A(a) requires a United States (US) shareholder of any controlled foreign corporation (CFC) for any taxable year of the US shareholder to include in gross income its global intangible low-taxed income (GILTI) for the taxable year. A US shareholder's GILTI is the excess, if any, of its net CFC tested income for such taxable year over the US shareholder's net deemed tangible income return for such taxable year,<sup>4</sup> which considers the US shareholder's pro rata share of its qualified business asset investment (QBAI).<sup>5</sup> With respect to a CFC for any taxable year, QBAI is the average of the CFC's aggregate adjusted bases, as of the close of each quarter of such taxable year, in specified tangible property used in a trade or business of the corporation, and of a type with respect to which a deduction is allowable under section 167.<sup>6</sup> A specified tangible property's adjusted basis is determined by using ADS under section 168(g).<sup>7</sup>

---

<sup>1</sup> Rev. Proc. 2021-26 modifies Rev. Proc. 2019-43.

<sup>2</sup> All references to "section" are to the Internal Revenue Code of 1986, as amended, and all references to "Reg. §", "Prop. Reg. §", and "regulations" are to U.S. Treasury regulations promulgated thereunder, unless otherwise specified.

<sup>3</sup> The AICPA plans to comment separately on broader issues impacting controlled foreign corporations (CFCs).

<sup>4</sup> Section 951A(b)(1).

<sup>5</sup> Section 951A(b)(2)(A).

<sup>6</sup> Section 951A(d)(1).

<sup>7</sup> Section 951A(d)(3).

Section 168(g)(1)(A) generally requires tangible property used predominately outside the US to be depreciated using ADS; however, a CFC may use a depreciation method employed in keeping its books of account in computing its income and earnings and profits (E&P) or a depreciation method consistent with US generally accepted accounting principles (i.e., a non-ADS method), as long as the CFC's required adjustments are immaterial.<sup>8</sup> The requirement under section 951A(d)(3) to determine a specified tangible property's adjusted basis to calculate QBAI may cause a CFC to want to change its non-ADS method to conform income and E&P with QBAI. Section 6.22 of [Rev. Proc. 2019-43](#), as added by section 3.02 of [Rev. Proc. 2021-26](#), provides for this change to be made with a section 481(a) adjustment, and section 7.07 of [Rev. Proc. 2015-13, as amended by section 4 of Rev. Proc. 2021-26](#), provides the relevant terms and conditions related to such change. In accordance with section 6.22(8) of [Rev. Proc. 2019-43](#), as amended by section 3 of [Rev. Proc. 2021-26](#), a CFC is required to calculate a separate section 481(a) adjustment for each item of property for this change.

### Recommendation

The AICPA recommends that the IRS issue procedural guidance that permits certain foreign corporations to report a net section 481(a) adjustment for entire groups of property for which the depreciation expense from the assets have the same source, separate limitation classification, character, or treatment for purposes of subpart F or tested income.

### Analysis

Section 7.07 of [Rev. Proc. 2015-13](#) provides the terms and conditions for a taxpayer making a change in method of accounting on behalf of a CFC or 10/50 corporation. Specifically, section 7.07(2) of [Rev. Proc. 2015-13](#), as amended by [Rev. Proc. 2021-26](#), requires a section 481(a) adjustment, or any component thereof, to account for the same source, separate limitation classification, character, and treatment for purposes of subpart F to prevent the duplication or omission of an item of income or expense. This requirement to separately state a section 481(a) adjustment of each item of property is burdensome. In order to achieve the revenue procedure's objective of properly accounting for separate source and character, it would be sufficient for a taxpayer to report a net positive or negative section 481(a) adjustment for entire groups of property subject to the method change to the extent that the depreciation expense from each individual asset in the group has an identical source and character. The netting of positive and negative section 481(a) adjustments for such assets is appropriate because a section 481(a) adjustment, whether positive or negative, should be characterized as an adjustment to depreciation expense for the tax year in which it is reported.<sup>9</sup> While the computation of a section 481(a) adjustment is based on each individual asset, the requirement to separately state each asset's section 481(a) adjustment on a Form 3115, *Application for Change in Accounting Method*, will impose an additional compliance burden on taxpayers that is inconsistent with the general goal of the Paperwork Reduction Act, P.L. 96-511. A taxpayer's ability to provide a single, net section 481(a) adjustment for entire groups of property in the manner described above will help to streamline the tax compliance process.

---

<sup>8</sup> See Reg. § 1.952-2(c)(2) and Reg. § 1.964-1(a)(2).

<sup>9</sup> See ILM 202123007 (May 10, 2021). See [MMC Corp. v. Commissioner](#), T.C. Memo 2007-354 (Nov. 29, 2007).

\* \* \* \* \*

The AICPA is the world's largest member association representing the accounting profession, with more than 428,000 members in the United States and worldwide, and a history of serving the public interest since 1887. Our members advise clients on federal, state, and international tax matters and prepare income and other tax returns for millions of Americans. Our members provide services to individuals, not-for-profit organizations, small and medium-sized businesses, as well as America's largest businesses.

We appreciate your consideration of our recommendations and welcome the opportunity to further discuss our comments. If you have any questions, please contact David Strong, Chair, AICPA Tax Methods and Periods Technical Resource Panel, at (616) 752-4251, or [david.strong@crowe.com](mailto:david.strong@crowe.com); Elizabeth Young, Senior Manager — AICPA Tax Policy & Advocacy, at (202) 434-9247, or [elizabeth.young@aicpa-cima.com](mailto:elizabeth.young@aicpa-cima.com); or me at (601) 326-7119 or [JanLewis@HaddoxReid.com](mailto:JanLewis@HaddoxReid.com).

Sincerely,



Jan Lewis, CPA  
Chair, AICPA Tax Executive Committee

cc: The Honorable Charles P. Rettig, Commissioner, Internal Revenue Service  
Mr. Mark Mazur, Acting Assistant Secretary for Tax Policy, Department of the Treasury  
Mr. William Paul, Acting Chief Counsel, Internal Revenue Service  
Mr. Krishna P. Vallabhaneni, Tax Legislative Counsel, Department of the Treasury  
Ms. Wendy Friese, Tax Policy Advisor, Office of Tax Legislative Counsel, Department of the Treasury  
Mr. Timothy Powell, Tax Policy Advisor, Office of Tax Legislative Counsel, Department of the Treasury  
Ms. Kate Abdo, Special Counsel, Income Tax & Accounting, Internal Revenue Service